

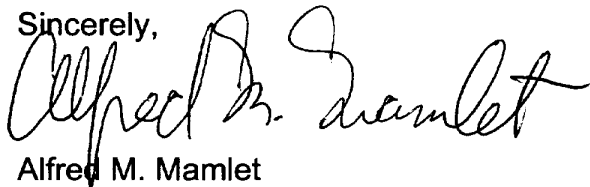
- Historically, INTELSAT exceeds the 17-21% target return in most years. Any examination of whether the IUC returns are sufficient must include an analysis of these past years, not just 1998.
- INTELSAT created a "Repayment of Capital-Excess Compensation" ("RCEC") account to capture these excess returns. In 1997, approximately \$275 million in excess compensation was converted to equity, increasing the capital base by 16%. See attached 1997 INTELSAT Annual Report at Note 8. Any subsequent analysis of IUC returns must recognize that COMSAT's equity increased 16% without any additional equity payments by COMSAT.
- Even in 1998, when INTELSAT earned only 15%, the IUC return was fully compensatory on an after-tax basis. The after tax return was 12.88%, more than COMSAT's traditional 12.48% regulated return, as shown by the equation: $(15\% \text{ (INTELSAT return)} * .7405 \text{ (1-COMSAT 1998 effective rate of 25.95\%)} * 1.16 \text{ (equity adjustment noted above)})$. For 1998, it is appropriate to use the actual tax rate in an analysis that uses the actual return. It would be appropriate to consider COMSAT's marginal rate if INTELSAT's target return were used, which would also generate sufficient compensatory returns.
- Since the surcharge would effectively be a guaranteed price established through ratemaking, 12.48% is the appropriate benchmark. The returns for Price-Cap LECs are not an appropriate benchmark because those returns are not guaranteed, and because those returns are generated through efficiencies while COMSAT would not be introducing any efficiencies.
- None of the insurance costs are properly included in a signatory surcharge. The vast majority of the costs claimed by COMSAT were paid by INTELSAT, not by COMSAT. COMSAT's exhibit on insurance costs (Exhibit C, attached as the second to last page in the presentation) shows that most of these insurance costs are merely COMSAT's pro rata "Share of INTELSAT" costs. COMSAT belatedly confirmed this fact on page 1 of its June 28, 1999 ex parte filing. These costs are included in INTELSAT's operational costs that are used to determine the IUC. Therefore, U.S. users already pay once for these insurance costs through the IUC. Including the costs in a "Signatory surcharge" would require direct access users to pay twice for the same costs.

- The remainder of the insurance costs claimed by COMSAT relate to COMSAT's "topping insurance." This covers replacement of insurance in the event of a satellite loss. These costs are not recoverable because INTELSAT compensates Signatories for this lost insurance in the event of a satellite failure. When the INTELSAT 708 satellites failed, there were \$205 million of loss covered by insurance. However, the replacement insurance (\$25.6 million) was not insured. Nevertheless, INTELSAT made the Signatories whole by taking "excess compensation" out of the RCEC account (described above) to compensate the Signatories. See attached 1997 INTELSAT Annual Report at Notes 4 and 8. Accordingly, INTELSAT users have already paid for this cost of replacing the insurance through the IUCs that generated the excess compensation. Including the topping insurance costs in a Signatory surcharge would force US INTELSAT users to pay the same costs twice. Further, as COMSAT concedes, INTELSAT now buys topping insurance.
- COMSAT also claims approximately \$300,000 in additional costs related to unspecified property. COMSAT has not provided adequate documentation or explanation to support including these costs for ratemaking purposes.
- Finally, COMSAT claims approximately \$3 million in "Estimated Signatory Function Expenses," without sufficient documentation or explanation to support inclusion of these costs for ratemaking purposes. Properly substantiated Signatory costs related to the U.S. Government instructional process might be properly included in a Signatory surcharge. However, these expenses should not include COMSAT's general participation in the Board of Governors or the myriad of INTELSAT committees because COMSAT would participate in these proceedings, in any event, by virtue of its significant ownership in INTELSAT. Even if fully half of the "Estimated Signatory Function Expenses" were for U.S. Government instructional process activities, that amount would result in a "Signatory surcharge" of less than 1% of the IUC.

Ms. Magalie Roman Salas
September 9, 1999
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- To conclude, the Commission cannot implement a "Signatory surcharge" because that would be tantamount to a ratemaking with an insufficient record. There is no basis for including a tax-related adjustment because COMSAT's after-tax, equity-adjusted IUC return exceeds 12.48%. There is also no basis for including insurance costs because INTELSAT users have already paid for them. COMSAT's documented expenses related to the U.S. government instructional process might be properly included in such a surcharge but that surcharge would be less than 1% of the IUC.

Sincerely,

A handwritten signature in cursive script, appearing to read "Alfred M. Mamlet".

Alfred M. Mamlet

cc:

Howard Shelanski
Marilyn Simon
James Ball
Peter Pappas
Doug Webbink
Anna Gomez
Bob Calaff
Dan Connors
Ari Fitzgerald
Adam Krinsky
Peter Tenhula
Donald Abelson

INTELSAT Utilization Charges (IUCs)

Satellite Users Coalition
(AT&T, MCI WorldCom and Sprint)
September 1999

COMSAT's Arguments Focus on the Trees, Not the Forest

- COMSAT has voluntarily increased its investment in INTELSAT significantly -- COMSAT's President and CEO stated that increased investment (which earns returns only from IUC revenues) "makes good business sense, and [COMSAT] expects to see a strong return on this investment."
- Carriers would be better off buying their own usage share of INTELSAT
- Lockheed Martin is paying a significant premium for COMSAT
- If there is a Signatory Surcharge, the difference between INTELSAT market value and book value should be distributed to U.S. users upon privatization

IUCs Are Market Prices

- IUCs are used for direct access in 94 countries
- Other countries have zero or nominal IUC surcharge -- e.g., Australia, Austria, Brazil, Chile, Colombia, Denmark, France, Germany, Sweden, UK
- INTELSAT uses IUCs to settle imbalances between usage and ownership, particularly for COMSAT
- COMSAT's "lack of vertical integration" argument fails
 - COMSAT sells to end users (including government)
 - IUCs fully compensate COMSAT (see next slide)

IUCs Fully Compensate COMSAT for Its Investment in INTELSAT

- INTELSAT 17-21% target rate of return on equity is 10.66-13.16% at COMSAT marginal tax rate of 37.31% and 12.59-15.55% at COMSAT 1998 effective tax rate of 25.95% -- this is fully consistent with COMSAT's authorized return of 12.48%
- INTELSAT has historically exceeded target rate of return and maintained excess return on balance sheet
- INTELSAT in 1997 used excess return to increase the equity on which its returns are paid by 16%, increasing COMSAT return by the same amount
- COMSAT return on invested capital in 1998 (when INTELSAT returns were below target) was 12.88% (15% (INTELSAT return) * .7405 (tax adjustment) * 1.16 (equity adjustment))

COMSAT Surcharge Calculation -- Summary

- COMSAT first calculates a surcharge of 18.22% (or higher) to raise INTELSAT's return
- COMSAT then adds an "Investing Signatory Surcharge" of 10.44%
- both components are substantially inflated
- higher surcharge based upon price-cap carriers' returns is unjustified in the absence of efficiency incentives for COMSAT

Surcharge Calculation -- 18.22% Surcharge to Raise INTELSAT Return Makes No Sense

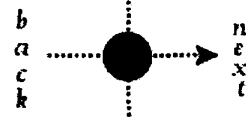
- focuses on the return to INTELSAT, not to COMSAT
 - proper focus is on COMSAT equity investment in INTELSAT
 - COMSAT response that INTELSAT is a cost-sharing cooperative and that COMSAT carries INTELSAT debt on its books is inadequate -- INTELSAT revenues, not COMSAT, service INTELSAT debt
- assumes INTELSAT is taxed at COMSAT's rate -- without taxation, INTELSAT already earns a return over 12.48%
- assumes IUC surcharge would be paid to INTELSAT, not COMSAT, for the benefit of all INTELSAT Signatories

Surcharge Calculation -- COMSAT Data Does Not Support “Investing Signatory Surcharge”

- most amounts claimed by COMSAT are not recoverable
- primary component of surcharge is capitalized “top-off” insurance, for which COMSAT claims a return, taxes and depreciation
 - INTELSAT now buys such insurance itself
 - INTELSAT has historically self-insured by compensating Signatories for losses out of excess profits
 - COMSAT data show that largest component is premiums paid by INTELSAT, not COMSAT
- most of COMSAT’s “Estimated Signatory Function Expenses” are to protect COMSAT investment
- in any event, total “Estimated Signatory Function Expenses” for 1998 of \$3,004,603 equal only 1.94 percent of COMSAT’s “Estimated 1998 IUC Payments to Intelsat” of \$154,770,000

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INTELSAT 1997 ANNUAL REPORT



F i n a n c i a l S t a t e m e n t s

31 December 1997, 1996 and 1995

[REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS]

TO THE BOARD OF GOVERNORS
INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION:

We have audited the accompanying balance sheets of International Telecommunications Satellite Organization (INTELSAT) as of December 31, 1997 and 1996, and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of INTELSAT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of INTELSAT as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with the accounting policies adopted by INTELSAT as described in Note 2.

Arthur Andersen LLP
Washington, D.C. - February 6, 1998

.....
B a l a n c e S h e e t s

ASSETS (U.S. \$ in thousands)	As of 31 December	
	1997	1996
Current assets:		
Cash and cash equivalents	\$ 21,937	\$ 84,661
Receivables (note 3)	256,655	251,962
Total current assets	278,592	336,623
Communications plant and other property, net (note 4)	3,276,045	3,114,794
Other assets	35,319	17,750
	<u>\$3,589,956</u>	<u>\$3,469,167</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Due to shareholders (note 5):		
Compensation for use of capital	\$ 82,009	\$ 91,186
Repayments of capital	105,189	93,235
Other	141,498	127,490
Accounts payable and accrued liabilities	156,269	91,369
Deferred revenues	11,118	11,551
Total current liabilities	496,083	414,831
Bonds payable (note 6)	950,000	950,000
Deferred revenues	43,954	52,703
Accrued retirement benefits (note 7)	62,588	58,340
Total liabilities	1,552,625	1,475,874
Accumulated repayments of capital - excess compensation (note 8)	-	274,178
Shareholders' equity (note 8)	2,037,331	1,719,115
Commitments and contingencies (notes 9 and 10)	<u>\$3,589,956</u>	<u>\$3,469,167</u>

S t a t e m e n t s o f O p e r a t i o n s

(U.S. \$ in thousands)	For the years ended 31 December		
	1997	1996	1995
Telecommunications revenue	\$961,619	\$911,361	\$805,432
Operating expenses (note 7):			
Operations and development	131,989	121,283	109,930
General and administrative	26,658	25,075	25,928
Depreciation	373,316	331,013	302,259
Total operating expenses	531,963	477,371	438,117
Operating income	429,656	433,990	367,315
Interest expense	(76,448)	(76,808)	(74,693)
Other income, net	13,897	9,807	5,993
Revenues over expenses before loss on launch failure	367,105	366,989	298,615
Loss on launch failure (note 4)	-	(25,588)	-
Revenues over expenses	<u>\$367,105</u>	<u>\$341,401</u>	<u>\$298,615</u>

S t a t e m e n t s o f C h a n g e s i n S h a r e h o l d e r s ' E q u i t y

(U.S. \$ in thousands)	For the years ended 31 December		
	1997	1996	1995
Balance as of 1 January	\$1,719,115	\$1,805,461	\$1,627,599
Compensation for use of capital:			
Revenues over expenses	367,105	341,401	298,615
Repayments of capital - excess compensation (note 8)	-	21,301	46,755
Capital contributions from shareholders	421,000	547,000	537,000
Transfer of accumulated repayments of capital - excess compensation balance (note 8)	274,178	-	-
Distributions to shareholders:			
Compensation for use of capital	(367,105)	(362,702)	(345,370)
Repayments of capital	(376,962)	(633,346)	(359,138)
Balance as of 31 December	<u>\$2,037,331</u>	<u>\$1,719,115</u>	<u>\$1,805,461</u>

S t a t e m e n t s o f C a s h F l o w

(U.S. \$ in thousands)	For the years ended 31 December		
	1997	1996	1995
Cash flows from operating activities:			
Revenues over expenses	\$367,105	\$341,401	\$298,615
Adjustments for non-cash items:			
Depreciation	373,316	331,013	302,259
Amortization of deferred revenues	(13,298)	(14,182)	(15,511)
Loss on launch failure	-	25,588	-
Changes in operating assets and liabilities:			
Receivables	(4,693)	(17,807)	(33,984)
Other assets	(17,569)	196	(7,889)
Due to shareholders - other	14,008	36,024	(5,131)
Accounts payable and accrued liabilities	64,900	(2,398)	(1,562)
Accrued retirement benefits	4,248	3,864	1,770
Deferred revenues	4,116	4,962	6,535
Net cash provided by operating activities	<u>792,133</u>	<u>708,661</u>	<u>545,102</u>
Cash flows from investing activities:			
Payments for communications plant and other property	(534,567)	(491,926)	(534,544)
Insurance proceeds for INTELSAT 708 (note 4)	-	204,700	-
Refund from launch contract termination (note 4)	-	49,296	-
Net cash used by investing activities	<u>(534,567)</u>	<u>(237,930)</u>	<u>(534,544)</u>
Cash flows from financing activities:			
Capital contributions from shareholders	421,000	547,000	537,000
Distributions to shareholders	(741,290)	(972,953)	(685,879)
Proceeds from issuance of bonds	-	-	200,000
Net repayments of short-term borrowings	-	-	(23,992)
Net cash (used in) provided by financing activities	<u>(320,290)</u>	<u>(425,953)</u>	<u>27,129</u>
Net (decrease) increase in cash and cash equivalents	<u>(62,724)</u>	<u>44,778</u>	<u>37,687</u>
Cash and cash equivalents, beginning of year	84,661	39,883	2,196

Cash and cash equivalents, end of year	<u>\$ 21,937</u>	<u>\$ 84,661</u>	<u>\$ 39,883</u>
Supplemental cash flow information:			
Cash paid during the year for interest	\$ 75,765	\$ 75,725	\$ 60,030

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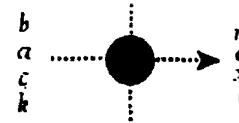
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INTELSAT 1997 ANNUAL REPORT



Notes to Financial Statements 31 December 1997, 1996 and 1995

1 GENERAL

All amounts included in the financial statements and notes to the financial statements are stated in US dollars.

The International Telecommunications Satellite Organization (INTELSAT or the Organization) was established on 12 February 1973 in accordance with the provisions of an Intergovernmental Agreement and an Operating Agreement. Through its global system of 27 geostationary satellites and related ground segment facilities (together, the space segment), INTELSAT provides, on a non-discriminatory basis, the capacity required for public telecommunications services to various entities in approximately 200 countries throughout the world.

The parties to the INTELSAT Agreement are INTELSAT's 142 member countries. The Signatories to the Operating Agreement (Signatories) are either the member countries or their designated telecommunications entities, public or private. Signatories may authorize other entities within their country to access the INTELSAT space segment and to invest in INTELSAT. Signatories and non-Signatory investors are referred to collectively as INTELSAT's shareholders. As of 31 December 1997, approximately seven percent of INTELSAT's investment shares were held by non-Signatory investors.

INTELSAT's Signatories are its principal customers and accounted for over 80 percent of total telecommunications revenue in 1997. The United States Signatory accounted for approximately 15 percent of total 1997 telecommunications revenue. In 1997, 1996 and 1995, INTELSAT's ten largest member-countries accounted for approximately 50 percent of total telecommunications revenue.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on an accrual basis of accounting and are consistent with the principles contained in the INTELSAT Operating Agreement.

A] REVENUE RECOGNITION Telecommunications revenues result from utilization charges which are generally recognized as revenue over the period during which the satellite services are provided. INTELSAT's principal services are the provision of space segment capacity for voice/data and video broadcasting, for both international and domestic use.

B] SHAREHOLDERS' EQUITY INTELSAT operates on a commercial basis as a cost-sharing cooperative with the long-term objective of providing services at prices which meet its revenue requirements. Each shareholder contributes to INTELSAT and receives capital repayments and compensation for the use of capital in proportion to its investment share.

Capital repayments are calculated so as to return all surplus cash to shareholders. Generally, the amount is equivalent to depreciation and other similar types of non-cash

expense. In 1996, additional repayments of capital were also made following the receipt of the insurance proceeds from the failed INTELSAT 708 and the refund from a launch contract termination (see note 4). Compensation for the use of capital is calculated based on a target rate, or range, of return which is established by the INTELSAT Board of Governors and periodically reviewed.

Revenues over expenses earned in excess of the target rate or range is established as a balance sheet credit in the accumulated repayments of capital - excess compensation (RCEC) account. In periods where the excess of revenues over expenses is less than the target return, this balance sheet account is reduced and compensation for the use of capital is increased to equal the target rate of return (see note 8).

Each shareholder's investment share is calculated annually based on its percentage of use of the space segment. However, in general, shareholders may elect to change their investment share, as calculated by their percentage of use, subject to certain limitations and the availability of other shareholders willing to increase or decrease their shares. Adjustments to investment shares are also made at the time of a Signatory's entry or withdrawal.

C] COMMUNICATIONS PLANT AND OTHER PROPERTY Communications plant and other property are stated at cost and consist primarily of the costs of spacecraft construction and launch, including insurance premiums, if any, and INTELSAT management expenses directly associated with monitoring and support of spacecraft construction. INTELSAT does not capitalize interest during the construction of spacecraft.

Spacecraft and launch services are generally procured under long-term, multi-satellite contracts which provide for payments by INTELSAT over the contract periods. Spacecraft and launch services costs are capitalized to reflect progress toward completion, which typically coincides with contract milestone payment schedules. The costs of spacecraft and launch services are transferred from construction in progress and depreciated after the satellites are launched and placed in service.

Communications plant and other property are depreciated on a straight-line basis over the following estimated useful lives:

	Years
Individual satellites	7-11
Satellite series program costs	10-13
Ground segment equipment and software	10
INTELSAT headquarters building	40
Furniture, equipment, computer hardware and software	4-12

Insurance premiums related to satellite launches and subsequent in-orbit testing are capitalized and depreciated over the lives of the related satellites.

The cost of retired satellites, related assets and the related accumulated depreciation are carried in the property accounts until the last satellite within the same series is retired.

Satellite performance incentives payable upon the initial successful operation of the satellites are capitalized and depreciated over the estimated useful lives of the respective satellites. Lump-sum performance incentives payable in advance with respect to several years of successful satellite operation are capitalized and depreciated over the periods to which they relate. Performance incentives payable subsequent to a period of successful satellite operation and those payable monthly, contingent upon the successful operation of the satellite during each month, are expensed as incurred.

D] CASH AND CASH EQUIVALENTS Investments included in cash and cash equivalents consist of Eurodollar time deposits which have original terms to maturity of 90 days or less. Carrying amounts approximate market value.

E] RESEARCH AND DEVELOPMENT Research and development costs of \$2,688,000, \$2,536,000, and \$2,438,000 in 1997, 1996 and 1995, respectively, have been expensed as incurred.

F] TAX STATUS Under the terms of the Headquarters Agreement, dated 24 November 1976, between the Government of the United States and INTELSAT, INTELSAT is exempt from United States and District of Columbia taxes.

G] DEFERRED REVENUES Deferred revenues represent the unearned balances remaining from amounts received from customers pursuant to transponder lease prepayment options. These amounts are recorded as revenues on a straight-line basis over the respective lease terms.

H] INTEREST COST Interest cost is charged to expense as incurred. Deferred financing fees are amortized to interest expense over the lives of the associated borrowings.

I] ESTIMATES AND ASSUMPTIONS The preparation of financial statements requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3 RECEIVABLES

Receivables as of 31 December comprised:

In Thousands	1997	1996
Satellite utilization charges:		
Unbilled	\$238,497	\$231,060
Billed	14,696	17,912
Other	3,462	2,990
Total	<u>\$256,655</u>	<u>\$251,962</u>

The unbilled satellite utilization charges as of each year-end represent the amounts earned and accrued as receivable from customers for their usage of the INTELSAT space segment in the fourth quarter of the year and are billed in January of the next year.

4 COMMUNICATIONS PLANT AND OTHER PROPERTY

Communications plant and other property as of 31 December comprised:

In Thousands	1997	1996
Satellites, launch vehicles and services	\$5,608,206	\$5,105,310
Information systems and ground segment	308,819	284,207
INTELSAT headquarters and other	<u>183,406</u>	<u>177,586</u>
	6,100,431	5,567,103
Less accumulated depreciation	<u>2,824,386</u>	<u>2,452,309</u>
Total	<u>\$3,276,045</u>	<u>\$3,114,794</u>

Communications plant and other property as of 31 December 1997 and 1996 included construction-in-progress of \$410,013,000 and \$628,787,000, respectively. These amounts relate primarily to spacecraft under construction and related launch services.

On 14 February 1996, the launch of the INTELSAT 708 satellite failed. Satellite construction, launch vehicle and program costs of approximately \$204,700,000 were insured. The amount of the launch insurance (\$25,588,000) was uninsured and was charged to expense in 1996. Subsequent to the launch failure, INTELSAT terminated the contract with the launch vehicle provider for two additional launches and received a full refund in 1996, totaling \$49,296,000, for all amounts previously paid for the canceled launches.

5

DUE TO SHAREHOLDERS

Balances due to shareholders include accrued fourth quarter undistributed compensation for, and repayments of, capital. Other amounts due include funds being held by INTELSAT for certain shareholders at their request.

6

BONDS PAYABLE AND OTHER BORROWING ARRANGEMENTS

As of 31 December, the carrying amounts and the estimated fair market values of INTELSAT's long-term debt were as follows:

In Thousands	1997		1996	
	Face Amount	Fair Value	Face Amount	Fair Value
Eurobond 6.75% notes due 19 January 2000	\$150,000	\$152,205	\$150,000	\$152,201
Eurobond 7.375% notes due 6 August 2004	200,000	209,400	200,000	208,810
Dragon bond 6.625% notes due 22 March 2004	200,000	204,200	200,000	200,008
Eurobond 8.375% notes due 14 October 2004	200,000	222,680	200,000	220,508
Eurobond 8.125% notes due 28 February 2005	<u>200,000</u>	<u>220,120</u>	<u>200,000</u>	<u>218,020</u>
	<u>\$950,000</u>	<u>\$1,008,605</u>	<u>\$950,000</u>	<u>\$999,547</u>

INTELSAT maintains a commercial paper program. During 1997, the average daily balance of commercial paper outstanding was approximately \$4,900,000 at an average effective borrowing rate of 5.74 percent per annum. During 1996, the average daily balance of commercial paper outstanding was approximately \$19,700,000 at an average effective borrowing rate of 5.44 percent per annum.

As of 31 December 1997, INTELSAT had a \$180,000,000 revolving credit facility with six banks to support the commercial paper program. As of 31 December 1997 and 1996, there were no borrowings outstanding under INTELSAT's revolving credit facility.

7

RETIREMENT PLANS AND OTHER RETIREE BENEFITS

A] STAFF RETIREMENT PLAN INTELSAT maintains a non-contributory defined benefit retirement plan covering substantially all employees. The cost under this plan is calculated by an actuary using a formula based upon the employees' remuneration, dates of hire and years of eligible service. INTELSAT funds the plan based on actuarial advice using the projected unit credit cost method. Net pension expense for 1997, 1996 and 1995 comprised:

In Thousands	1997	1996	1995
Service cost for benefits earned during the period	\$6,056	\$5,946	\$6,107
Interest cost on projected benefit obligation	13,070	11,940	12,172
Actual return on pension plan assets	(35,178)	(24,164)	(31,308)
Net amortization and deferral	<u>19,281</u>	<u>10,278</u>	<u>17,736</u>
	<u>\$3,229</u>	<u>\$4,000</u>	<u>\$4,707</u>

The following table shows the pension plan's obligation recognized in the balance sheets as of 31 December 1997 and 1996 based on valuation dates of 30 September 1997 and 1996:

In Thousands	1997	1996
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$166,418 in 1997 and \$145,108 in 1996	<u>\$179,065</u>	<u>\$154,976</u>
Projected benefit obligation for service rendered to date	208,535	172,626
Pension plan assets at fair value	<u>(220,729)</u>	<u>(181,513)</u>
Pension plan assets in excess of projected benefit obligation	(12,194)	(8,887)
Unrecognized net gain	16,423	10,731
Unrecognized prior service cost	2,361	2,579
Unrecognized transition asset as of 1 January 1987 being amortized over 12 years	1,033	3,047
Fourth-quarter contributions to the plan	<u>(818)</u>	<u>(952)</u>
Net pension liability	<u>\$6,805</u>	<u>\$6,518</u>
Assumed discount rate	7.00%	7.75%
Expected rate of return on pension plan assets	9.00%	9.00%

The annual rate of compensation increase is assumed to be approximately five percent. Plan assets include investments in equity and bond funds, common stocks, US Government Securities and liquid reserve funds.

B] SUPPLEMENTAL RETIREMENT PLAN INTELSAT also maintains a supplemental contributory defined contribution retirement plan which is available to substantially all employees. The expense for this plan was \$1,167,000, \$1,174,000, and \$1,168,000 in 1997, 1996 and 1995, respectively.

C] SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN The Organization has an unfunded supplemental pension plan for executives. The expense for this plan was \$315,000, \$311,000, and \$290,000 for 1997, 1996 and 1995, respectively. The Organization's accrued liability for this plan was \$1,342,000 and \$1,027,000 as of 31 December 1997 and 1996, respectively.

D] POST-RETIREMENT BENEFITS OTHER THAN PENSIONS In addition, INTELSAT provides health benefits for retirees. All employees who retire at or after age 60 with five years of service or before age 60 with 10 years of service, are eligible for these benefits. The cost under this unfunded plan is calculated by an actuary based on the level of benefits provided, years of service and certain other factors. During 1997, 1996 and 1995, the following estimated costs of post-retirement benefits other than pensions were recognized as expense:

In Thousands	1997	1996	1995
Net periodic post-retirement benefit cost:			
Service cost for benefits earned	\$1,773	\$1,956	\$1,607
Interest cost on accumulated post-retirement benefit obligation	3,317	2,986	3,450
Net amortization and deferral	(249)	(268)	
	<u>\$4,841</u>	<u>\$4,674</u>	<u>\$5,057</u>

The following table shows the plan's obligations, as well as the liability recognized in the balance sheets as of 31 December 1997 and 1996 based on valuation dates of 30 September 1997 and 1996:

In Thousands	1997	1996
Accumulated post-retirement benefit obligation:		
Retirees	\$27,518	\$29,163
Fully eligible active participants	1,350	1,214
Other active participants	15,376	13,318
	<u>44,244</u>	<u>43,695</u>
Unrecognized net gain	10,406	7,428
Fourth-quarter net premium payments	(209)	(328)
Net post-retirement benefit liability	<u>\$54,441</u>	<u>\$50,795</u>
Assumed discount rate	7.00%	7.75%

Depending upon actual future health care claims experience, INTELSAT's actual costs may vary significantly from those projected above. For measurement purposes, as of 30 September 1997, the annual rates of increase in the per capita cost of covered health care benefits were assumed at 7.0 percent for participants and retirees under age 65 and 5.5 percent for those aged 65 and older. These rates were assumed to decrease gradually to 5.0 percent by the year 2001 and to remain at that level of annual increase thereafter. Increasing these assumed health care cost trend rates by one percent each year would increase the accumulated post-retirement benefit obligation as of 30 September 1997 by \$7,343,000 and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for the year 1997 by \$988,000.

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ACCUMULATED REPAYMENTS OF CAPITAL - EXCESS COMPENSATION

In accordance with the Operating Agreement, the INTELSAT Board of Governors establishes a target rate of compensation (return) on shareholders' invested capital. All shareholders are entitled to the target rate of return. Through 1996, the return in excess of the target was accumulated in the balance sheet account, accumulated repayments of capital-excess compensation (RCEC). In 1996 and 1995, \$21,301,000 and \$46,755,000, respectively, was transferred from the RCEC account to achieve the target rate of 20 percent. The 1996 transfer included \$25,588,000 to offset the reduction in the return due to the loss incurred on the INTELSAT 708 launch failure.

In December 1996, the INTELSAT Board of Governors decided to transfer the remaining RCEC balance into shareholders' equity during 1997. This was accomplished through a 31 March 1997 transfer of \$133,000,000 and a 30 June 1997 transfer of the remaining balance of \$141,178,000.

In 1997, the INTELSAT Board of Governors decided to establish a range of 17-21 percent for the target rate of return and to review the range annually. During 1997, the actual return on shareholders' invested capital was approximately 18 percent, which was within the target range. Thus, no amounts were transferred to or from the balance sheet account, accumulated repayments of capital-excess compensation (RCEC).

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INTELSAT's Parties, Signatories, Board of Governors, and Management are engaged in discussions regarding the creation of a commercial affiliate. Depending on the outcome of those discussions, decisions expected to be made in the first quarter of 1998 could result in a transfer of certain assets and liabilities from INTELSAT to the affiliate.

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Estimated Total Surcharge
(S000)

1997 INTELSAT Rate of Return - as calculated from Annual Report	9.14%
COMSAT Allowed Rate of Return before Non-Dominance	12.48%
Increase Required for INTELSAT to Match Avg. Price Capped	<u>3.34%</u>
 INTELSAT Avg Comm Plant and Equipment (1997)	 3,195,420
Increase in Rate of Return Required	<u>3.34%</u>
Increase in Operating Revenue Required to Obtain Avg. Return	106,883
Increase in Revenue Required to Obtain Avg. Return	106,883
Current COMSAT Tax Rate	<u>39.00%</u>
Required Pre Tax Increase in Revenue to Obtain Avg. After Tax Return	175,219
 1997 INTELSAT Telecommunication Revenue	 961,619
Increase in Operating Revenue Required to Obtain Avg. Return	<u>175,219</u>
Total Revenue Required	1,136,838
 Surcharge Required for Additional Revenue	 18.22%
Surcharge for Signatory Functions	10.44%
 Total Surcharge	 <u>28.67%</u>

Rate of Return Calculation for INTELSAT (\\$000)

	1997 *	Revenue Increase	1997 after Adj.
Telecommunications Revenue	\$ 961,619	\$ 175,219	\$ 1,136,838
Operating Expenses			
Operations and Development	131,989		131,989
General and Administrative	26,658		26,658
Depreciation	373,316		373,316
Total Operating Expense	<u>\$ 531,963</u>		<u>\$ 531,963</u>
Operating Income	429,656	175,219	604,875
Tax Expense (see Tax Calculation below)	<u>137,751</u>		<u>206,086</u>
Operating Income After Tax	<u>\$ 291,905</u>		<u>\$ 398,788</u>
Comm. Plant and Other Property	1997 \$ 3,276,045		
	1996 \$ 3,114,794		
Avg. Comm. Plant and Other Property	\$ 3,195,420		\$ 3,195,420
After Tax Rate of Return on Communications Plant and Other Property	9.14%		12.48%

Tax Calculation

	1997 *	Adj.	Adj. 1997
Telecommunications Revenue	\$ 961,619	\$ 175,219	\$ 1,136,838
Total Operating Expense	<u>531,963</u>		<u>531,963</u>
Operating Income	429,656		604,875
Interest Expense	<u>(76,448)</u>		<u>(76,448)</u>
Pre-Tax Income	353,208		528,427
Tax Rate	39%	39%	39%
Tax Expense (Pre-Tax Income times Tax Rate)	<u>\$ 137,751</u>	<u>\$ 68,335</u>	<u>\$ 206,086</u>

- Data are from the 1997 INTELSAT Annual Report

Investing Signatory Surcharge
Estimate for COMSAT

Average Capital Employed (outside of Intelsat)	\$	31,033,160
After Tax Rate of Return		12.48%
Total Return	\$	<u>3,872,938</u>
Depreciation on COMSAT Assets (Annualized)		7,776,636
Taxes on Return		1,510,446
Estimated Signatory Function Expenses		3,004,603
Total of COMSAT Costs	\$	<u>16,164,624</u>
Estimated 1998 IUC Payments to Intelsat	\$	154,770,000
Percentage of IUC Payments		10.44%

COMSAT World Systems' Satellite Insurance

Satellite	Launch Date	CWS Insurance Premiums (\$M)			
		Share of INTELSAT	Launch	Post-Sep.	Total
601	Oct-91	\$ -	Accurate data by satellite not available.		
602	Oct-89	\$ -			
603	Mar-90	\$ -			
603 Reboost	May-92	\$ -			
604	Jun-90	\$ -			
605	Aug-91	\$ -			
6 series total		\$ -			\$ 54.800
ISK	Jun-92	\$ -	\$ 7.525	\$ 1.475	\$ 9.000
701	Oct-93	\$ 4.191	\$ 0.712	\$ 0.422	\$ 5.325
702	Jun-94	\$ 4.218	\$ 0.712	\$ 0.422	\$ 5.352
703	Oct-94	\$ 4.605	\$ 0.888	\$ 0.422	\$ 5.915
704	Jan-95	\$ 4.621	\$ 0.888	\$ 0.422	\$ 5.931
705	Mar-95	\$ 4.406	\$ 0.888	\$ 0.422	\$ 5.716
706	May-95	\$ 4.910	\$ 1.041	\$ 0.645	\$ 6.596
707	Mar-96	\$ 5.010	\$ 1.173	\$ 0.645	\$ 6.828
709	Jun-96	\$ 2.894	\$ 0.611	\$ 0.645	\$ 4.150
801	Mar-97	\$ 4.831	\$ 0.514	\$ 0.809	\$ 6.154
802	Jun-97	\$ 5.029	\$ 0.526	\$ 0.471	\$ 6.026
803	Sep-97	\$ 2.495	\$ -	\$ -	\$ 2.495
804	Dec-97	\$ 2.549	\$ -	\$ -	\$ 2.549
805	Jun-98	\$ 6.103	\$ -	\$ -	\$ 6.103
806	Feb-98	\$ 3.087	\$ 0.309	(Combined)	\$ 3.396

Estimated Cost of
Insuring the Premiums
(Incl. in Total)

\$ 7.976
\$ 1.299
\$ 0.468
\$ 0.471
\$ 0.622
\$ 0.624
\$ 0.601
\$ 0.548
\$ 0.638
\$ 0.369
\$ 0.811
\$ 0.794
\$ 0.318
\$ 0.325
\$ 0.778
\$ 0.269

COMSAT's accounting system does not track launch and spacecraft insurance premiums according to the categories requested. Data on the share of INTELSAT's insurance premiums is based on INTELSAT documents and communications with INTELSAT. COMSAT's ownership share applied to INTELSAT's total premiums is as of March 1 of each year. The other data shown is based on various sources, including records of wire transfers, company correspondence, and estimates.

Depreciation Schedule For Insurance

Spacecraft	Depreciable Life
VI Series	10 Years
VII Series	11 Years
VIIA Series	11 Years
VIII Series	11 Years
IS-K	10 Years

Note:

VI Series and VIII Series insurance both have multiple accounts with some subaccounts having different lives. The term shown above is the blended average rate for the series.